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WASHINGTON, MARCH 7, REUTER -- CIA Director William Casey said today his agency has strengthened its intelligence-gathering operations to assess instability in countries vital to U.S. interests, including Egypt, Saudi Arabia, Pakistan and Mexico.

Casey said the Central Intelligence Agency was keeping a closer watch on possible instability in key countries.

He disclosed the increased spying activities in remarks to a meeting of the National Defense Executive Reserve when asked about changes in the agency following the 1979 overthrow of the Shah of Iran, which came as a surprise to many U.S. officials.

Casey blamed former President Carter among others for the fact that the United States was ill-prepared for the Shah's overthrow and said this would not happen today.

"We assess every year the degree of instability in all the countries which are of strategic significance to us," Casey told the group, composed of people who have volunteered to help manage government affairs in time of war.

He said the intelligence-gathering was being conducted by various means.

Casey said the agency was monitoring economic instability.

"The financial pressures of the debt burden these countries have today and the International Monetary Fund pressure to impose austerity and cut back, increase prices, hold-down wages and so on can have a lot of political backlash," he said.

"We watch this very hard and have increased our number of officers assigned to these countries," he said without elaborating.

He said the agency had made a poor showing in the 1970s in covering third world countries, but was stepping up its study of these countries, as well as improving its economic reporting.

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DISCUSSING IRAN; CASEY SAID THERE WERE TWO FACTORS -- THE INTELLIGENCE ITSELF AND WHAT WAS DONE WITH IT.

'I DO NOT KNOW HOW GOOD THE INTELLIGENCE WAS AT THAT TIME; BUT IT WAS CLEAR TO ME THAT THE POLICY-MAKERS HAD TURNED THEIR BACKS ON INTELLIGENCE.'

HE SAID THEY WERE AFRAID BECAUSE OF THE CIA'S UNFAVORABLE NOTICES IN THE PRESS AND CONGRESS; APPARENTLY REFERRING TO THE AGENCY'S ALLEGED ATTEMPTS AT DESTABILIZING FOREIGN GOVERNMENTS.